

The Challenges of mainstreaming Environmental, Social and Governance (ESG) issues in Investment Decisions

A mini-survey of practitioners' reports

Kenneth Amaeshi (Cranfield School of Management)

and

David Grayson (Cranfield School of Management)

This working paper is part of the 'Corporate Responsibility, market valuation and measuring the financial and non-financial performance of the firm' research project. This is a joint project between Cranfield School of Management, SDA Bocconi School of Management and Vlerick Leuven Gent Business School, on behalf of the European Academy for Business in Society (EABIS). The research project is supported by the founding corporate partners of EABIS: IBM, Johnson and Johnson, Microsoft, Shell and Unilever; and by Lloyds Banking Group and Telecom Italia.

The research team is co-ordinated by Prof David Grayson and includes Dr Kenneth Amaeshi, Hager Jemel, Prof Celine Louche, Prof Francesco Perrini and Prof Antonio Tencati. Additional authors for individual working papers are recognised on each working paper. The final report of the research team will be published in September 2009.



EABIS

European Academy
of Business in Society



Microsoft

Johnson & Johnson



Lloyds TSB



**The Challenges of mainstreaming Environmental, Social and
Governance (ESG) issues in Investment Decisions**

A mini-survey of practitioners' reports

[A contribution to the Valuing Business Project]

Kenneth Amaeshi
kenneth.amaeshi@cranfield.ac.uk

David Grayson
david.grayson@cranfield.ac.uk

Executive Summary

This segment of the Valuing Business Project focuses on the analysis of non-academic reports in the non-financial performance space. These reports include those written by practitioners and or those written by other constituents (e.g. academics) with mainly a practitioner audience in mind.

These reports have been qualitatively analysed by Nvivo. The analysis was guided by the following questions:

1. What challenges do they identify?

Finding:

Some of the challenges (barriers) identified include:

- Complexity and power relations: here most of the reports acknowledge that the issues at hand are complex. Given the complexity involved, the issues are equally contested.
- Quantification and financialisation: It was argued that the inability of the market and its actors to get a quantitative and financial handle on the issues could be frustrating efforts to advance the field. Quantification and financialisation are key market logics.
- Inadequate Management Systems: it was identified that management systems constitute one of the main challenges in mainstreaming ESG issues. These management systems include the following:
 - Unaligned employee/investor performance and reward systems
 - Poor identification and prioritisation process
 - Inability to ascertain the materiality of issues considered
 - Inappropriate and underdeveloped management methodologies and approaches
 - Inadequate communication artefacts and poor research questions
 - Lack of appropriate information on how ESG issues are integrated into corporate strategy
 - Oversimplification of models and poor understanding of measurement challenges
 - Too many and often fragmented initiatives
 - Poor engagement and dialogue
- Time horizon: Time is an essential element in the investment decision equation. And this comes up often as one of the challenges in the way of mainstreaming ESG issues, especially as the financial markets are in the main skewed towards short-termism and ESG issues are often long-term oriented. There is a kind of default mode of thinking that expects attention to ESG issues in investment decisions to conform to short-term demands.

- Trust and accountability: All these challenges confronting the mainstreaming of ESG issues finally boil down to issues of trust and accountability – i.e. amongst the different actors, firms and even at the system level.

2. What solutions do they proffer?

Finding:

Some of the solutions proffered include the need to:

- Embed ESG issues in core strategies of the firm
- Recognise that change comes through a systematic approach to ESG in investment decisions
- Set essential criteria for useable KPIs for ESG
- Create appropriate and adequate incentive structures
- Have in-house ESG analysts as they appear to enhance the effectiveness of asset managers
- Have joint investor initiatives e.g. signatory to UNPRI

3. What are the motivations behind these practitioners' reports?

Finding:

Most of the reports and focus group discussions make a case for the need to promote ESG issues in investment decisions. They unashamedly claim that their purposes have an advocacy undertone mainly aimed at enhancing (a) the communication between analysts and firms, (b) the functioning of markets and (c) the investment decision function to capture long term issues.

4. What discursive strategies do they employ?

Finding:

Given that the main purpose of these reports is geared towards advocacy, they, therefore, employ series of discourses for their advocacy. Some of the main discourses that emerged in the analysis of the reports and focus group discussions are highlighted below.

- Business value and sustainability discourse: This is the traditional business case discourse. Some of the themes explored through this discourse include the following: enhanced (a) market leadership and competitive advantage, (b) corporate and managerial performance, (c) financial reputation and return on investment, (d)

stakeholder engagement and relationship, (e) risk management and sustainable long term growth

- Futurism discourse: Herein the emphasis is on the future of ESG issues, which is anticipated with tension, anxiety and mixed-feelings. On one hand, some elements of the discourse seem to suggest an optimistic future for ESG issues in investment decisions; on the other hand, there is a pessimistic outlook of the future with occasional evocation of fear.
- Regulation discourse: The regulation discourse centres on the need for the government to be more involved in the scheme of things by providing better governance of the market as well as clarity for the different market actors, especially where and when the market itself is unable to address the challenges facing the integration of ESG issues in investment decisions.

1. Introduction

There is a growing concern that investment decisions, and the financial market broadly, do not appropriately reflect all the ingredients that go into creating high performing organizations. In other words, business valuations often rely on incomplete information – especially with regards to information on intangibles – e.g. brand equity and risks. This concern has been understood by some market participants – including regulators, business associations, analysts and investors – who think that investment decisions and business valuations could be enhanced if they properly reflected environmental, social and governance (ESG) risks that often tag along with them. This concern has gathered significant momentum at the turn of the 21st Century with its associated environmental, social and governance challenges. However, whilst some market actors see the need to incorporate ESG into investment decisions as opportunities for new market/product creations – e.g. the SRI market – others, mainly the mainstream, are yet to fully come to terms with it. It is suspected that a major challenge in the process, is how recognition of ESG issues in investment decisions are internalised by the financial market and or lead to long-run organisational sustainability and performance. It is equally suspected that both investors and companies are still grappling with the ‘how’ of this sustainable finance discourse and the practical implications for conventional investment and broader business decisions.

Notwithstanding many discussions on this topic, relatively little is yet known about how firms are coping with the demands of this new business paradigm in practice, which is the main concern of this study. It is worthwhile to point out that this study is part of a broader research agenda on Valuing Business – a research project coordinated by The Doughty Centre for Corporate Responsibility at Cranfield University, United Kingdom, on behalf of the European Academy of Business in Society (EABIS) and the European CSR Alliance. The Valuing Business project focuses mainly on non-financial – or extra-financial – performance measures that influence investment decisions. A key concern of this research project, therefore, is to understand if the link between environmental, social and governance issues and long-term business performance is understood and used. For details, please visit: <http://www.investorvalue.org/>

Given the concerns and challenges outlined above, this study sets out to map and understand what practitioners in this economic space thought were the major obstacles and solutions to mainstreaming the practice of integrating ESG risks in investment decisions. The study pays specific attention to the research question: What are the enablers and barriers to mainstreaming ESG issues in investment decisions? The analysis suggests at least 7 significant obstacles, which need to be addressed if ESG performance is to be more integrated into investment decisions.

The paper starts with a description of the methodology used. It then presents the results of the data analysis; and finally, offers an academic commentary to highlight the motivations behind the practitioner’s reports

used in the study and to deconstruct their discursive strategies. It is anticipated that the academic commentary would help to give some theoretical anchoring to these reports.

2. Methodology

The study searched for practitioners' reports in this field since 2000 – given that much of the momentum in this field has been, mainly, since the turn of the Century - and identified 82 reports from accounting firms, investor associations, business coalitions, investment banks, multinational institutions, consultancies and think tanks, governments and multi stakeholder fora. A list of the 82 reports were sent to 36 experts (see appendix 4) in the field to advise on the relevance and impacts of these reports. The experts were also asked to identify other reports the study might have missed out in the process. The intention here was to meta-analyse these reports with the aim of identifying the major issues involved in integration of ESG risks in investment decisions. The outcome of the meta-analysis would in turn be presented to practitioners in form of Delphi method¹ for further insights and analysis.

¹The objective of most Delphi applications is the reliable and creative exploration of ideas or the production of suitable information for decision making. The Delphi Method is based on a structured process for collecting and distilling knowledge from a group of experts by means of a series of questionnaires interspersed with controlled opinion feedback (Adler and Ziglio, 1996). According to Helmer (1977) Delphi represents a useful communication device among a group of experts and thus facilitates the formation of a group judgement. **Culled from:** <http://www.iit.edu/~it/delphi.html>

	Group	% of reports
1.	Multinational, multi-stakeholder CR coalition	29.3
2.	Accounting firm/Think Tank	19.5
3.	Campaigning NGO	9.8
4.	Business-led CR Coalition	6.1
5.	Consultancy	6.1
6.	Investment Bank	4.9
7.	Academic CR centre	3.7
8.	Business-investor forum co-ordinated by Sustainability consultancy & Think tank	2.4
9.	Multi-stakeholder, multinational corporate reporting coalition	2.4
10.	Ad hoc multi-stakeholder initiative	1.2
11.	Business –society Coalition	1.2
12.	Fund manager	1.2
13.	Government	1.2
14.	Investment Professionals Association	1.2
15.	Investor Association	1.2
16.	Media	1.2
17.	Pension Fund	1.2
18.	Professional body of management accountants	1.2
19.	Research Network	1.2
20.	SRI Researcher	1.2
21.	Think tank / NGO promoting responsible business	1.2
22.	University	1.2

Number of Reports per year (2000 – 2009)

Year	Number of Reports
2000	2
2001	2
2002	0
2003	5
2004	5
2005	10
2006	14
2007	26
2008	17
2009	1

18 responses were received, out of the targeted 36 practitioner respondents. A good number of the reports presented to them were considered relevant and impactful. 13 extra reports were suggested through this process, which were added to the mix. In total, they constituted well over 4,000 pages; however, a sample of these (22 of them) – i.e. those most mentioned by the respondents – were analysed. The complete list of the analysed reports is contained in APPENDIX 3.

Criteria for selecting Report Documents for Meta-analysis

These criteria include the following:

- Documents focused on the broad areas of Environmental, Social and Governance (ESG) issues in investment decisions, project finance and or financial markets – including:
 - sustainable finance,
 - responsible investments,
 - CSR and corporate performance,
 - CSR and investor behaviour,
 - non-financial and or extra-financial performance,
 - sustainability and financial markets
- Documents produced mainly by practitioners – e.g. consultancies, think-tanks, industry associations, accounting firms, regulators, multinational institutions, multi-stakeholder groups, etc. Where published by academic institutions or by academics, the document should be understood as being addressed to practitioners and not meant for the academic audience
- Documents not published in academic journals
- Documents should be impactful – impact factor to be determined by practitioners awareness of the document – e.g. through citations or word of mouth reference
- Documents published from 2000 to date

These reports were then qualitatively analysed by Nvivo – a qualitative research analysis software. The selected documents were uploaded on to the Nvivo software. The analysis was carried out in two phases. The first phase was exploratory – whereby the researcher read through the documents and conducted some coding, guided by the research question: “What are the enablers and barriers to mainstreaming ESG issues in investment decisions?”. Preliminary results suggested 12 factors, often mentioned in practitioners’ reports, as the main challenges to making ESG risks integral to investment decisions. Quality of data, trust and difficulties in ascertaining the materiality of ESG risks were top on this list of challenges. The outcome of this phase was presented at a workshop organised by the research group on September 10, 2008 for comments and feedback – (see Amaeshi and Grayson, 2008²). Following this exploratory phase, the 2nd phase of the coding was guided by the feedback received from workshop session and further suggestions by members of the research team.

² Amaeshi, K. & Grayson, D. 2008, 'Count me out: The challenges of environmental, social and governance risks in making investment decisions', in *EABIS 2008 Colloquium: Corporate Responsibility & Sustainability*, Cranfield. <http://www.investorvalue.org/docs/Count%20me%20out%20-%20EABIS%20version%20-%20NFP%20workshop.pdf>

Presented below are the emergent findings from the 2nd phase of the analysis

3. Findings: Barriers to integrating ESG in investment decisions

3.1. Complexity and Power Relations

ESG issues are complex and uncertain

ESG issues present a very high degree of complexity, which makes them very difficult to articulate, assess and integrate into investment decisions. This complexity is tied to the challenge involved in understanding the boundaries of ESG issues – i.e. what is in and what is out. This is no doubt linked to the historical baggage the ESG issues tend to inherit from the Social Responsible Investment trend. The SRI market has all sorts of issues embedded in it; including value based funds (ethical funds) as well as positively and negatively screened funds. One could argue that it is difficult to point to an absolute morality (or ethics), which makes the entire drive towards ethical investment easily susceptible to relativist arguments, and therefore subjective and not easily amenable to a market characterised by the quest for 'objectivity', comparability and generalisability. Reflecting on this confusion and complex identity, some fund managers said:

Part of our challenge as a movement is that we have a confusing persona in the marketplace. One minute we are talking about values and clients' ability to define ethical issues, another minute we are talking about ESG integration that could help in a risk-adjusted way. We merge all those together. Not surprisingly, clients, customers, consultants and everyone else, including ourselves, get confused. (Responsible Investor, *Responsible Investment Landscape 2008 Asset Owners*, p.6)

*Language
Confusion*

Clients and mainstream colleagues don't have any difficulty understanding ethical screening or playing a particular theme like clean tech. Such consensus enables appropriate fund manager comparison and encourages them to remain faithful to their processes. But having found 16 different phrases to describe the kind of sustainability data that managers say they are now integrating into their mainstream analysis, it's hardly surprising people are confused and that integration is not moving as quickly as it could! If we want mainstreaming to accelerate going forwards, finding one or two consensus terms that embody what integration is about would be a very good move. (AXA, *Investment Managers Survey Report*, 2008)

In the same vein, a business coalition group and an investor association

said, respectively:

Language
Confusion

Overall, there remains a wide degree of uncertainty on these issues and confusion as to whether they should be an area of concern for the financial community. When positive attitudes are found, few respondents can go into any depth in order to clarify their answers and significant numbers cannot identify the issues that need to be improved. (Business in the Environment, *Investing in the Future*, 2003)

ESG is a generic term used in capital markets. Often, it is erroneously equated with terms like Corporate Responsibility or Sustainability. However, when mainstream capital markets look at ESG, two focal points immediately emerge: risk caused by (bad) ESG performance and business opportunities based on proactive ESG performance. Corporate Responsibility reports from corporates address several stakeholder groups, not just investors and financial analysts. However, as a professional association of investment professionals, DVFA will focus on the use of ESG in capital markets and how to assure that any ESG data be delivered in useful formats and with meaningful content to investment professionals. (EFFAS, KPIs for ESG, 2008)

This complexity and uncertainty is further orchestrated by the fact that the corporate responsibility agenda, upon which the ESG issues are founded, is always expanding and adjusting to the demands of the time. The issues are constantly evolving and as such difficult to pin down. For example, the issue of obesity and healthy eating has entered the corporate responsibility agenda, where it was not in the last decade or so, especially in the developed economies. The same can be said of other issues like climate change, water scarcity and even immunisation (e.g. PharmaFutures). This fluidity, while necessary in identifying and internalising externalities arising from corporate actions and inactions, carries with it significant amount of complexity and uncertainty. Commenting on the expansionary nature of the CR agenda, Arthur D. Little said:

Expansionary
nature of ESG
Issues

=

"At the same time, the CR agenda continues to expand, with new theories about what is 'responsible' business practice. What was once a simple set of ethical principles now embraces such issues as: resource use; greenhouse gas emissions; genetic modification; product pricing in developing countries; animal testing; ethical trading; and so on. In order to satisfy investor demands for information on such a diverse range of topics, SRI researchers demand an increasing quantity of information from companies on their policies and practices in all of these areas.... The widening scope of SRI analysis is obscuring efforts to focus down on the material issues." (Arthur D. Little, *Speaking the same language*, 2003: 6)

The quest to unpack and address these complexities often leads to information overload:

Information Overload

Unsurprisingly, investors rarely admit to having too much information. However, a third of investors did consider that published financial statements contain too much information on Socially Responsible Investing and Corporate Social Responsibility. This compares with less than 15% of investors who felt that they needed more information in these areas (*Financial Reporting: KPMG's Survey of Leading Investors: p.5*).

Investors have limited time and resources to analyze corporate data. Information overload – especially if that information has no clear link to investment decision-making – is a serious concern. Information ought to be accessible, easy to use, and reliable for it to effectively support an efficient market. (Boston College, *White Paper: Report on Project Findings Corporate Reporting of Social, Environmental, and Governance Information: What Investors Want, 2008: 4*)

ESG issues are contestable

In addition to the complexities engendered by the ESG issues, they also constitute an arena for contestations and power relations. These contestations and power relations in turn express themselves through different interests and interest groups. Unsurprisingly, in the literature and sometimes in everyday professional conversations on ESG issues, the investor community is often considered and treated as a homogenous group. This understanding in itself tends to conceal the differences in both interests and power relations that could exist amongst investors. In line with this observation, a multinational institution identified the following investor groups and their characteristics:

Not segmenting Investors

1. Financially-focussed investors: wish to include ESG issues for the sole purpose of enhancing financial return (e.g. through best-in-class actively-managed investments, ESG 'tilts' to broad-based indexes, and themed satellite investments)
2. Blended investors: seeking an investment that makes a competitive return (relative to mainstream benchmarks) but that also delivers a certain degree of environmental or social return (includes the target investors of most of the available ethical, SRI or sustainable funds, and investors with small allocations to microfinance to reduce portfolio correlation)
3. Social investors: wish to deliver environmental or social outcomes through their investments, even if the investment may be sub-optimal in

terms of risk-adjusted returns (e.g. investors with sizeable asset allocations to community investments and microfinance) (UNEPFI, *Unlocking Value*, 2007)

Investors can also be differentiated in terms of their analytical inclinations – e.g. either quantitative or qualitative oriented – as well as their professional identities. These analytical inclinations and differences in professional identities are themselves enough sources of contestation. It is recognised that how the investment community responds to ESG issues is influenced by professional affiliations and communities of practice. For example, it was noticed that:

Professional Affiliations

Investor relations officers might be expected to give environmental and social issues a higher score due to the fact that many of them will be directly involved in preparing this information for their own company reports. They are also more likely than other respondent groups to check directly on these issues when evaluating other companies - much of that work will entail looking at how peers present and report corporate information.... (while).... sell-side analysts are consistently behind the curve of wider City opinion on these issues and, most significantly for the analysts, behind the views of their institutional investor clients in terms of the importance they attach to environmental and social information (Business in the Environment, *Investing in the Future*, 2003)

Tied to both investors' analytical orientations and professional identities is the general attitude of investors, which also needs to be taken into consideration to understand possible sources of power relations and contestations within the investment community:

Investors' Attitude

The attitude of investors is also cited by analysts, journalists and investors themselves as a barrier to the provision of high quality information. The implication is that if investors took these issues more seriously it would help draw more information out of companies. Some investors consider the provision of high quality environmental and social information as being part and parcel of their quality of management assessment. They might not be looking for this kind of information on its own but the provision of high quality reporting on these issues helps convey a rounded view of the quality of a company. (Business in the Environment, *Investing in the Future*, 2003)

It is also recognised that the three legs of ESG are not treated equally. In most cases, the G issues are prioritised over E and S issues, as confirmed the research findings of a Think tank, below:

Our findings suggest that asset managers' focus on ESG more often than not is limited to governance issues such as board structure and remuneration. Of the 22 asset managers that disclosed a policy on ESG issues 19 covered only corporate governance issues, while only F&C, Insight and Standard Life could explain their policy on environmental and social factors in any detail. Similarly, on corporate engagement, although the overall score for the 30 asset managers on ESG engagement was 53%, this fell to a mere 25% when environmental and social issues were considered separately from governance. It appears as though investment analysis of environmental and social risks/opportunities is confined to a small niche in the industry. This is a significant cause for concern as the risks associated with environmental and social mismanagement by companies can be as damaging to value as governance issues both in the short and the long run..... Although two thirds of the asset managers surveyed could demonstrate evidence of over 50 requests for change in company behaviour in relation to ESG issues; only one sixth (F&C, Insight, Aviva Investors, Schroders and Standard Life) could do the same once governance issues were removed. Evidence of success in securing change is also weaker in E&S than in ESG as a whole. (FairPensions, Investor Responsibility, 2008)

Inadequate consideration of E and S issues

The power relations and contestations may sometimes, also, take a transnational and political nature.

One reason why analysts, traders, and portfolio managers reject extra-financial information is that it "...has been defined exogenously. It is the result of a multi-stakeholder dialogue that is now being imposed on the closed 'capital market' system. Ultimately, incumbents fear that the objective of ESG is to change this system, and so their opposition should come as no surprise. It must, therefore, be made clear in each case what objectives are being pursued and what the underlying motives are" WestLB, What really counts – the materiality of extra-financial factors, 2007:5)

Hostility to external ideas

The 'view' that ESG issues are political charged, as mentioned in the quote above is further corroborated by this quote from an Investor Association body:

There is a considerable conceptual and communicative gap between the more politically and human rights-

Politics and communication

motivated UN campaign, “Principles for Responsible Investments”, and the day-to-day experience of sustainability in many companies. This disconnect cannot be remedied by any legislative means, and no attempt should be made by legislatures to do so. The issue at hand is a translation of features and properties, which at first glance are difficult to grasp and too complex to quantify into indicators that the capital markets can understand, use for calculations, and relate to monetary figures. This type of modeling relies on the financial-analytical mindset of investment professionals. These are the people who will develop such models, and ultimately, the only ones who will recognize their usefulness. (EFFAS, KPIs for ESG, 2008)

3.2. Quantification, Comparability and Quality of ESG data

ESG issues are not easily quantifiable and comparable

The quantification of data implies some sort of tangibility and manipulability – in other words, it has to be “a thing” (Callon and Munieza, 2005). Both tangibility and manipulability allows the market system to compare and contrast. The comparability of data adds to data quality. One way of objectification is through quantification. This does not raise any surprises as the quality of data and quantification were raised as one of the main obstacles constraining the mainstreaming of ESG issues.

Lack of measures and standardised approaches

One clear message emerges when respondents were asked about what might help them take environmental and social information more seriously in the future. The lack of environmental or social performance indicators was mentioned by all those surveyed as being a serious barrier to the provision of high quality information in these fields. Environmental performance indicators are singled out as likely to be of real help in this regard....It seems that widely recognised performance indicators would make for easy comparison between sectors and companies and make the financial community much more inclined to take these issues seriously. This is especially important for these issues because the financial community is not concerned enough about them in order to have to do investigative or analytical work of its own. Setting targets according to those numbers then makes it extremely easy for analysts, investors and journalists to see if companies have lived up to their promises. (Business in the Environment, *Investing in the Future*, 2003)

Because there is not yet a standard for disclosure of ESG performance, it is difficult for investors to compare company performance on these issues. Companies can help reduce this challenge by increasing disclosure and employing report standards such as the Global Reporting Initiative, which provide guidance on how organizations can disclose their sustainability

performance. (BSR, *Environmental, Social and Governance: Moving to Mainstream Investing?* 2008)

"The ...reason for the scepticism of mainstream analysts is the lack of measures with which to compare CR performance between companies. Analysts are accustomed to using ratios and models to compare companies on a roughly equal basis, which helps to make portfolio decisions easier." (Arthur D. Little, *Speaking the same language*, 2003)

It was a common perception that most of the corporate material was of limited use for investment professionals, as it was (and still is today) typically communicated in prose style. Moreover, ESG data are often delivered to stakeholders as a separate paper report..... ESG information should be consistent and transparent. The information should be quantified and adequately explained. Comparisons with other organizations should also be possible. For this reason, all material changes in the boundaries and scope of reporting, or the reporting periods, should be indicated and explained. The reported ESG-KPIs must be accurate (i.e. free from significant errors), plausible, and definitive, and not in contradiction with current measures, other company (EFFAS, *KPIs Reports*, 2008)

The argument, therefore, is that for ESG issues to be mainstreamed, they have to be amenable to the quantification and comparability demands of the market, as graphically explained below by an Investors Association body:

Integration of ESG is often viewed under a theoretical framework that, although currently under some scrutiny from the academic world, has been well-established through practical experience: namely that of "efficient markets". In short, this theory states that prices already reflect all known information relating to a share, and that the markets are in a state of equilibrium. All new information - and ESG represents an immense reservoir of additional information for financial analysts and investors (see above) - has the potential to impact the fundamental assessment of an equity. This presupposes, of course - and this is where the work of DVFA is focused - that the data is quantified, comparable, and benchmarkable! This is what makes the data usable for every investment professional. (EFFAS, *KPIs Reports*, 2008)

*ESG data
incomparability*

Notwithstanding, the need to meet the demands of the market appears to be undermined by data inconsistencies and insufficiencies arising mainly from the differences of ESG data in terms of actors, industries, regions and countries.

SRI analysts and research/rating agencies use different questions and different definitions when they are seeking broadly similar information.” (Arthur D. Little, Speaking the same language, 2003: 4)

We are challenged by data inconsistencies, regional differences in policy focus, degrees of integration across the value chain, and diverse product portfolios across the companies in our ESG universe. We do not believe that sufficient quantifiable and comparable data exists to objectively measure several issues such as human rights, recruitment, training, local waste and water management and biodiversity. (GS Sustain, 2008)

ESG data inconsistencies across actors, industries, regions and countries

The current lack of data — and more specifically uniform data — makes impact measurement very difficult. One SRI professional said, “With the data presently available globally, it would be very difficult to do such an analysis because the data is different across the board.” As such one can not make an “apples-to-apples” comparison about impact since each investment decision will be made on different available data.”.... Despite corporate social responsibility/ sustainability reports published by many companies, there is no uniformity in the information being reported. In situations where no information is reported, the only way to evaluate the company would be to assess its public practices and policies even though these do not always equate to performance. In contrast to annual reports, which contain very specific and consistent data for all public companies, these reports are not required and there is no specific format or required data to be disclosed.” (BSR, Environmental, Social and Governance: Moving to Mainstream Investing? 2008: 11)

Tied to this concern is the predictive reliability of the data on ESG issues:

“If a company is rated very highly based on its ESG criteria and its share price has gone up, you can’t be sure the company’s share price went up because of the ESG criteria or some other reason. Perhaps by observing the company and similar investments for an extended period of time the relationship may become more obvious; but presently, it isn’t possible to do.” - Phone interview with Alka Banerjee of Standard and Poor’s (April 10, 2008) (quote from BSR, 2008:9)

Poor predictive ability of ESG data

3.3. Management Systems

Inadequate Management Systems

It was found that management systems constitute one of the main challenges in mainstreaming ESG issues. These management systems include the following:

3.3.1 Unaligned employee/investor performance and reward system

Most of the reports suggest that the reward and performance systems of most firms do not support long-term interests, which are at the heart of the ESG issues. In recognition of this challenge, the CFA wrote that: "...evaluating the performance of asset managers against a quarterly benchmark is counterproductive to conditioning them as long-term investors." In this regard, it advocates that: "As much as possible, incentive pay for asset managers should be measured by long-term metrics in order to promote a long-term investment horizon." This is also echoed in the opinion of a fund manager in the extract below:

Equally, if the respondents are right, and the benefits of integrating responsible investment data are primarily long-term, this survey raises important questions about how investment professionals will be evaluated (and rewarded) for doing this work. The industry will have to shake off its preoccupation with short-term outcomes and weigh the quality of a fund manager's investment process in equal amount. This will be the only way to distinguish between those investment professionals likely to deliver the long-term benefits of integration and those who will not. Of course to do this, asset owners and their consultants will also need new competencies." (AXA, *Investment Managers Survey Report*, 2008:4)

Unaligned performance and reward system

3.3.2. Poor identification and prioritisation process:

This implies that most often ESG issues are not seen as top priorities and as such tend to be left as last minute issues, as expressed by the Business in the Community quote below:

Environmental and social factors are slowly becoming more important for those who shape and influence the opinions of the financial community - but they remain low down on their list of priorities. Without being prompted, all respondent groups gave high rankings to factors such as quality of management, financial status and growth prospects when evaluating companies. Environmental and social issues come in much further down the scale with only 3% of analysts, 4% of investors, 3% of journalists and 13% of

Low priority of ESG issues

investor relations managers mentioning them of their own volition (Business in the Community, 2003).

On one hand, this confirms the view that: "...presently there is not a standardized approach to integrating ESG criteria into mainstream investing practices. It seems that companies are taking on varying levels of integration"³. On the other hand, there are also some firms who are "...differentiating themselves based on their methodology of integration. Variations include assessing ESG criteria with an industry focus, maintaining siloed ESG experts within the firm, fully integrated enhanced analysis for all investments, and development of specific ESG funds." (BSR, 2008: 7). Notwithstanding, the international bank, WestLB (2007: 11), argued that: "...the target of 'mainstreaming' ESG factors is best served if the involvement of those to be convinced is flanked by an objectified process to identify and prioritise relevant extra-financial factors." The argument of WestLB re-enforces the view that one of the challenges in mainstreaming ESG issues has to do with poor identification and prioritisation process at the firm level.

3.3.3. Need to centralise ESG function in firms

An appendage to the identification and prioritisation process is what has been identified by some reports as the need for a *centralised ESG function in firms*. It is thought that such centralisation will help to bring ESG issues to the fore, as articulated below by FairPensions (2007: 8⁴)

"One argument advanced by several fund managers was that they had no need for a dedicated ESG team, since ESG issues were routinely integrated into the work of their entire investment management workforce.

However, the survey found no evidence that this approach was proving effective, as in most cases the lack of a central ESG team meant that there was no data accessible to this survey. It may be that these fund managers have indeed succeeded in fully integrating ESG issues into their investment decisions; however, with no centralised monitoring or logging of ESG engagement, proof of effective engagement and consequently reduced portfolio risk will be difficult to demonstrate. Furthermore, without a central policy the fund manager will struggle to convey a coherent message on ESG to the companies it invests in, with one fund manager perhaps voicing concerns on an issue, while another working for the same company pursues a potentially conflicting strategy."

Lack of centralised ESG functions in firms

³ BSR, Environmental, Social and Governance: Moving to Mainstream Investing? 2008:6

⁴ Fund Manager Transparency and Engagement on Environmental, Social and Governance Issues (FairPensions, 2007)

3.3.4. The Materiality of ESG Issues

One of the vexing problems that have continued to hunt ESG issues is how to ascertain the issues that are material and those that are not. The materiality of these issues appears to be ‘the missing golden link’ in mainstreaming ESG issues, and at the heart of the debate on the link between corporate social performance (broadly defined as ESG issues) and corporate financial performance. This concern tends to run through from quality of data to management processes. For instance, FairPensions (2008) dwelling on the materiality of engagement and dialogue on ESG issues reported that:

Though many of the asset managers surveyed this year appear to be actively voting and conducting engagement meetings with companies, less than half are able to show any evidence that their engagements have brought about change in corporate behaviour on ESG concerns. Only three, (F&C, Insight and Aviva Investors) show substantial evidence of change in company policy and practice (e.g. through results of benchmarking exercises, or externally corroborated reports). It is notable that, although asset managers are generally cautious to claim any causal effect of their engagements, those who are more confident in claiming success are the ones who adopt RI in a comprehensive manner, as suggested by their high scores on all sections of the survey.

The materiality of engagements

With regards to the materiality of the data on ESG issues, EFFAS (2008) and WestLB (2007), respectively, reported that:

Investment professionals – and this perception is also shared by corporates – rarely consume ESG reports in their entirety. There are several reasons for this: in most cases data is quantified; but even if quantified, the information is not comparable with data delivered by peers or across periods. For much data, there is no standard definition available. But most importantly, for many ESG-related items, there is little evidence of a correlation to the performance of the corporate, i.e. what are the implications of the ESG item reported for risk or profitability? (EFFAS, 2008)

The materiality of ESG data

“The link (of ESG information) to other financial variables (share price performance, valuation, profitability, growth) is much less pronounced, and only in a few cases do we have reason to believe that it goes beyond mere statistical coincidence” (WestLB, 2007: 1)

Notwithstanding the seeming dismissive undertone of EFFAS’ and WestLB’s comments, above, it was also evident through our data analysis that the materiality of ESG issues is one of those black-boxes that are yet

to be unpacked, and as such easily prone to contestation. In other words, some actors agree that ESG issues have some materiality, while some others struggle to come to such conclusions:

Materiality is contested

"...financial institutions are developing different ways of evaluating ESG criteria. Many financial investment professionals are centering [sic] on the idea that some ESG factors will yield a positive return on investments, and some factors may yield a negative return. As such, they are looking to identify indicators of risk, corporate management, pending regulation and anything else that might affect the overall share price of a company." (BSR, 2008: 7)

Materiality is a complex and interdependent construct that requires expertise to unpack

It is worthwhile to point out that the materiality construct is not an independent one. Materiality is rather dependent on the other issues – such as quality of data, management processes, the methodologies and approaches employed, and even on the

presence of a price system:

"To traditional financial analysts, ESG factors are often material only when they carry a 'price tag', a phenomenon that has been observable since the introduction of the European emissions trading system" (WestLB, 2007: 11)

It has also been argued that the materiality of "extra-financial" factors do not necessarily support short-term performances (i.e. they are usually long-term focussed), which appear to be one of the dominant market logics.

"The concept of extra-financial materiality aims not to identify the factors that have an impact of +/-5% on the results of the coming fiscal year, but rather to record those factors that can have an impact of, for example, 10%, 20% or 50% over the next five, 10 or 20 years, or that can even be decisive to the company's survival" (WestLB, 2007: 7)

In support of this, BSR (2008: 3) commented that:

"Although many mainstream financial institutions, such as ABN AMRO and Goldman Sachs, have begun considering the effects of including ESG criteria as part of their fundamental financial analysis, investors are waiting for vetted proof of long-term materiality before fully incorporating the criteria". (p.3)

The ability to figure out the materiality of ESG issues, according to Arthur D. Little, is also dependent on the competence of the analysts:

“Material CR issues are those that really affect value. Some SRI analysts have a poor understanding of the materiality of CR issues to shareholders’ interests.” (p.4)

All these are further compounded by the fact that in the “... current definitions of trustee fiduciary duty, financial materiality and corporate disclosure requirements do not incorporate or ensure the integration of environmental, social and corporate governance issues into fundamental company analysis.” (UNEPFI, 2004:5)

3.4. Methodologies and Approaches

Inadequate methodologies and approaches are obstacles

Our analysis found that the methodologies and approaches used for assessing ESG issues often stand in the way of mainstreaming these issues. Some of the challenges highlighted include:

3.4.1. The communication artefact used and the research questions

Commenting on this but with an emphasis on the research questions, the Research Network for Business Sustainability (2008: 13), quoting a respondent, noted that:

“While many researchers and managers are concerned with the environmental financial performance link, little is known about which causes which. Interestingly, Klassen believes that the cause-effect question of which causes which is not nearly as important as asking why such a relationship exists. The lack of such understanding has resulted in external investors not being able to see what underlies decisions made by firms. According to Klassen, “Once why is understood well enough, then a good decision can be distinguished from a bad one.”... Klassen believes that such a shift requires a change from focusing on ‘how much’ firms spend on environmental technologies to ‘why’ firms spend what they do. According to Klassen, the ‘how much’ approach to environmental capital investments ignores potential tradeoffs firms must make, as well as the longer term benefits and the reduction of future costs.” (p.13)

Wrong analytical emphasis

There is also a concern on how academic researches in this area are framed:

“...most research focuses on the overall relationship between social performance and financial performance, rather than on the tools that can be used to value sustainability activities. Academics also tend to examine accounting and market measures, analysts’ perceptions, and cash flows to evaluate firm performance, rather than variables that would be more meaningful to managers, such as debt costs, employee relations, and innovative culture.” (Research Network for Business Sustainability, 2008: 6)

*Inadequate
variable
analysis*

These measurement challenges are sometimes underpinned by seemingly wrong assumptions – which could be in the way ESG issues are sometimes banded around as something equivalent or similar in nature to financial information.

“The ...reason for the scepticism of mainstream analysts is the lack of measures with which to compare CR performance between companies. Analysts are accustomed to using ratios and models to compare companies on a roughly equal basis, which helps to make portfolio decisions easier.” (Arthur D. Little, 2003: 11)

*Lack of
comparability
(measurement)*

3.4.2. Lack of appropriate information on how ESG issues are integrated into corporate strategy

One thing that strongly came out through our data analysis is that ESG issues need to be contextualised to make sense. One way to do this is, which investors/markets often expect, is for firms to demonstrate how well the ESG issues are linked to corporate strategy and invariably to their performance. What is happening, however, is the situation whereby this link between corporate strategy and ESG issues is material to corporate performance.

For the lowest-ranked fund managers, meanwhile, the survey was unable to find evidence of any coherent strategy on, or activity relating to, ESG issues in their investment processes. (FairPensions)

3.5. Time Horizon

Time horizon mismatches (or conflicts)

Time is an essential element in the investment decision equation. And this comes up often as one of the challenges in the way of mainstreaming ESG issues, especially as the financial markets are in the main skewed towards short-termism and ESG issues are often long-term oriented. There is a kind of default mode of thinking that expects attention to ESG issues in investment decisions to conform to short-term demands. In a survey conducted by EIRIS – a UK-based, independent provider of research into ESG performance of companies – it was found that:

In the 'top 10' sectors over 90% of investors surveyed believed that ESG issues would have some impact on the companies' value over the short to medium term (3-5 years); over a third considered the financial impact to affect over 10% of the value of companies; and around 10% considered over 25% of value to be at risk (EIRIS, 2006)

Short-termism

Notwithstanding, the conventional expectation is that certain kind of investors – for example some institutional investors – may take longer term views, as suggested by EFFAS:

In their mindsets and out of the approach they take, institutional investors are focused on long-term performance. They are not interested primarily in quarterly numbers, but rather in management integrity. They are not out for short-term, flash-in-the-pan gains. They expect thorough transparency when it comes to operational risks. (EFFAS, KPIs for ESG, 2008)

Different time preferences

This creates a competitive tension, and often a mismatch, between short-term and long-term investment time horizons, on one hand, and short-term and long-term investment interests. But most of the time, the short-term pressures tend to win against long term interests and time horizons. However, the CFA warns that:

An excessive short-term focus combined with insufficient regard for long-term strategy can tip the balance in value-destructive ways for market participants, undermine the market's credibility, and discourage long-term value creation and investment. Such short-term strategies are often based on accounting-driven metrics that are not fully reflective of the complexities of corporate

Destructive short-term prerogatives

3.6. Mindset and Education

Mindsets are obstacles

Some of the reports suggest that the mindsets of managers and investors stand in the way of mainstreaming ESG issues. These mindsets are often products of the conventional/traditional education system that is skewed towards the promotion of a dominant view of economic activities – i.e. shareholder orientation and short-termism. This is recognised as a deep and structural challenge:

“The ‘mainstream’ reflex response – to reject this new information world – is typical for the behaviour of systems that are based on human experience and relations. But alongside the emergence of cognitive dissonance caused by the entry of new elements, the rigidity of such systems also results from the concern of incumbents over the devaluation of the specialist knowledge they have invested in (WestLB, 2007).”

Inflexible analytical framing

Sometimes, this structural challenge manifests itself as cynicism towards ESG issues:

“Combating cynicism is a fundamental barrier for ESG criteria to gain mainstream acceptance. In order for investors to fully accept ESG criteria, all the previously stated barriers have to be overcome. In addition, investors will need a different mindset. According to Anthony Ling and Sarah Forrest in the Working Capital Report, “Pigeonholing ESG issues will kill them. They must be embraced as mainstream – that is how we can make a real and lasting difference” (UNEP FI, GC, 2007). However, in order to do this, investors will need to be open to the idea that the inclusion of ESG criteria may help lead to future value creation.” (BSR, 2008: 15)

Cynicism of ESG value

However, it is equally recognised that these mindsets and attitudes towards ESG issues need to be counteracted through re-education and capacity building:

“Education also seemed to affect professional investor decision-making: those professional investors with more accounting courses were more likely to take account of non-financial information in their decision-making; those investors with more finance courses were significantly less likely to use the same information.” (Boston College, 2008: 11)

Re-education

Investors trained in financial analysis are not fully equipped to evaluate ESG criteria. To overcome this challenge, several investment companies have begun training their investment professionals on ESG criteria, some financial institutions have hired specialists to work solely on these issues, and some educational institutions have begun incorporating ESG issues into MBA and CFA programs (BSR, 2008).

All these suggest that there is the need to: “Promote broad education of all market participants about the benefits of long-term thinking and the costs of short-term thinking” (CFA, 2006).

3.7. Trust and Accountability

It is all about trust and accountability

All these challenges confronting the mainstreaming of ESG issues finally boil down to issues of trust and accountability – i.e. amongst the different actors, firms and even at the system level.

On the firm level – i.e. the companies investors invest in, there is a seeming distrust of the credibility of management to represent ESG issues in decision making in ways that do not harm investors’ interests. In this regard, most investors would expect that:

The information, data, processes, and assigned competencies required for the preparation of ESG reports should be recorded, analyzed, documented, and disclosed in such a way that they would stand up to an internal and external audit or review. An independent audit by well-qualified third parties is a particularly good way to increase the assurance capability (i.e. perceived reliability) of the reported ESG-KPIs. This also serves to ensure the credibility and acceptance of ESG communication among the target groups. As a rule, external auditing carries the additional advantage that ESG reporting and ESG management can be improved based on the best practices referred to by the auditor (EFFAS).

Solution:

ESG credibility gap

Ernst and Young (2007:4) also noted that: “Financial reputation is essentially about trust. The underlying question which needs to be clearly answered in the mind of the investor is whether they believe in management, their strategy and their ability to deliver”. In other words, “the credibility of management, how they communicate and the quality of financial reporting are all paramount ...[since] ...financial reputation is primarily about building trust with, and demonstrating competence to investors” (Ernst & Young, 2007: 3/4).

Despite the fact that financial reputation is built on trust and accountability, “[M]ost fund managers scored very low on transparency, with only a few honourable exceptions” (FairPension, 2008). This paradox of low transparency even when high transparency is needed to enhance financial reputation is not unrelated to the dilemma (i.e. the unintended burden of trust) that confronts managers, and which is aptly described by the following extracts:

The burden of Transparency

As can be seen, companies appear to be reluctant to put hard numbers upon these issues or set themselves targets that can then be held against them in the future - not just in the environmental or social fields. Ironically, when taken to extremes, such fears of bad publicity can also make them appear closed or having something to hide in the eyes of journalists and other audiences. The lack of disclosure can itself lead to bad publicity as they gain a reputation for failing to reveal information. (Business in the Environment, *Investing in the Future*, 2003)

“...there is no financial penalty for survey participation, the benefit is questionable and so it is often difficult to make the business case to disclose corporate information” (Research Network for Business Sustainability, 2008: 16)

This air of distrust extends to other actors and artefacts such as the:

SRI Community: “The SRI community needs to become more credible to mainstream investors, and to justify its conviction that it can help investors to assess shareholder value more thoroughly.” (Arthur D. Little, 2003: 4)

Measurement metrics: “...none of [existing] frameworks have been observed long enough to conclusively show that they yield long-term outperformance” (BSR, 2008: 8)

Rating agencies: “Organisations that conduct questionnaire surveys are not clear enough about whose interests they serve, or what they will do with the information they receive. Their analysis is often seen by companies as naive.” (Arthur D. Little, 2003: 4)

3.8. Summary of barriers

One way to summarise the challenges and solutions highlighted above:

“... the uncertainty surrounding the objective behind considering ESG is only one obstacle on the road to ‘mainstreaming’ this approach. Others have a background in human behaviour and bounded rationality” (WestLB, *What really counts – the materiality of extra-financial factors*, 2007: 6)

Barrier

“...financial institutions are developing different ways of evaluating ESG criteria. Many financial investment professionals are centering on the idea that some ESG factors will yield a positive return on investments, and some factors may yield a negative return. As such, they are looking to identify indicators of risk, corporate management, pending regulation and anything else that might affect the overall share price of a company.” (BSR, *Environmental, Social and Governance: Moving to Mainstream Investing?*, 2008: 7)

Solution

4. Commentary: an academic perspective

This section will seek to create a theoretical context, which could enhance the understanding of the findings highlighted in the subsequent sections. Most of the reports make a case for the need to promote ESG issues in investment decisions. They unashamedly claim that their purposes have an advocacy undertone mainly aimed at enhancing (a) the communication between analysts and firms, (b) the functioning of markets and (c) the investment decision function to capture long term issues. They, therefore, employ series of discourses for their advocacy. Since the research data underpinning this study is primarily drawn from practitioner’s reports, and given the advocacy orientation of most of these reports, this section draws from the academic literature to explore the role of reports (documents), as discursive artefacts, in fostering institutional change. In the process, it will highlight some of the discursive strategies employed by these reports to achieve their goals.

4.1. Discourses, Documents and Institutional Change

The role of discourses in institutional work has featured heavily in broader social sciences – especially political science and sociology of social movements, as well as in language and communication sciences. Social movements and social coalitions, for example, are to a large argued to be built on sophisticated discourses that mirror the rhetoric and frames of their time (Snow, Rochford, Worden and Benford, 1986). Discourses could be in form of texts, speeches, and conversations (Taylor et al., 1996). Discourses aim at creating, maintaining or disrupting institutional logic – i.e. “the underlying assumptions, deeply held, often unexamined, which form a framework within which reasoning takes place” (Horn, 1983: 1). Frames and logics are essential components of the discourse repertoire of tools. Frame denotes “schemata of interpretation” that enable individuals “to locate, perceive, identify, and label” occurrences within their life space and the world at large (Goffman, 1974:21 cited in Snow et al., 1986), while “Logics enable actors to make sense of their ambiguous world by prescribing and proscribing actions. Action re-enacts institutional logics, making them durable” (Suddaby and Greenwood, 2005: 38).

Vivien Schmidt is one of the major authors that have contributed to the understanding of institutions from a discursive perspective – in what she calls discursive institutionalism. According to her, “To gain a full understanding of the political dynamics of change”, which is a form of institutional transformation, there is need to go beyond what she describes as “politics as usual” – “that is, beyond an understanding of the interplay of interests, institutions, and cultures that represent the background conditions to change, to examine what ideas and values are contained in a policy program, how policy elites construct their policy program, and how they convey it to the general public. All of this I consider under the rubric of policy discourse” (Schmidt, 2002:5). However, she acknowledges that:

Showing that discourse exerts causal influence is not simple, since the ideas articulated by a discourse cannot easily be separated from the interests which find expression through them, from the institutional interactions which shape their expression, or from the cultural norms that frame them. And because of this, discourse cannot in any case be seen as the case, or the independent variable, given that it rests, as it were, on top of the other variables. But it could be seen as one of a number of multiple causes or influences – and it may even be the very variable or added influence that makes the difference, by serving to overcome entrenched interests, institutional blockages, or cultural blinders to change. This is likely to do through the re-conceptualization of long-standing notions of self-interests, the reframing of institutional rules and cultural norms, and through the appeal to general interests over narrow self-interest (pp 5- 6).

Despite the hesitation expressed by Schmidt in establishing casual links between discourses and institutions, Phillips et al. (2004) is one of the major step changes in management literature linking discourses directly to institutions. Social reality, it is argued, is constitutive of discourses. Without discourse, there is no social reality, and without understanding discourse, we cannot understand our reality, our experiences, or ourselves” (Phillips and Hardy, 2002). Drawing from Parker (1992), Phillips and Hardy (2002:3) define discourse “... as an interrelated set of texts, and the practices of their production, dissemination, and reception, that brings an object into being”. In other words, the goal of discourse analysis is to ascertain the constructive effects of discourse through the structured and systematic study of texts (Hardy, 2001; Phillips and Hardy, 2002). In this regard, language becomes fundamental to institutionalization and institutionalization occurs as actors interact and come to accept shared definitions of reality (Phillips et al., 2004). As such, it is through linguistic processes that definitions of reality are constituted (Berger & Luckmann, 1966). Continuing, Phillips et al., state that “...institutions, therefore, can be understood as products of the discursive activity that influences actions (p.635)”.

According to Phillips et al., actions inform the formative processes of institutionalisation and resultant institutions in turn inform, enable and constrain actions. This interactive process is mediated by texts and discourses. Actions generate corresponding texts; but not every action is capable of generating texts that are widely disseminated and consumed. Phillips et al. theorise that only actions that require organisational sensemaking and that affect perceptions of organization’s legitimacy are more likely to result in the production of texts that are widely disseminated and consumed than actions that do not (p.642). The texts in turn inform discourses which in turn inform institutions. However, not every text is capable of becoming embedded in discourses, except those “...that are produced by actors who are understood to have a legitimate right to speak, who have resource power or formal authority, or who are centrally located in a field” (644). In addition, “...texts that take the form of genres, which are recognizable, interpretable, and usable in other organizations and texts that draw on other texts within the discourse and on other well-established discourses are more likely to become embedded in discourse than texts that do not” (644) . In the same vein, they argue, not every discourse gives rise to institutions. Discourses that give rise to institutions are “coherent, structured and...supported by broader discourses and are not highly contested by competing discourses” (p.645).

Most of the reports and focus group discussions make a case for the need to promote ESG issues in investment decisions. They unashamedly claim that their purposes have an advocacy undertone mainly aimed at enhancing (a) the communication between analysts and firms, (b) the functioning of markets and (c) the investment decision function to capture long term issues.

Some of the main discourses that emerged in the analysis of the reports and focus group discussions are highlighted in the sections, below.

4.1.1. Business value and sustainability discourse

This is the traditional business case discourse. Some of the themes explored through this discourse include the following: enhanced (a) market leadership and competitive advantage, (b) corporate and managerial performance, (c) financial reputation and return on investment, (d) stakeholder engagement and relationship, (e) risk management and sustainable long term growth:


The expectation is that global assets of high net worth (HNW) individuals will reach more than USD 44 trillion by 2010. HNW individuals typically hold 4-5% of their assets in investments which integrate environmental, social and governance (ESG)

Business opportunity & Competitive advantage

considerations. At the same time, market analysis indicates that 32% of the HNW community find ESG investment concepts attractive. Private bankers willing to take a leadership role in ensuring the development of products and services that respect the two ROIs - - Return on Investment and Responsibility of Investment - - will be serving a market where client demand is set to outstrip supply. [In other words] ESG-inclusive investment should be seen as a business opportunity and source of competitive advantage. (UNEPFI, *Unlocking Value*, 2007)

The survey shows that responsible investment practices among top 20 fund managers vary from excellence to apparent absence. Many fund managers, such as State Street, Wellington and Goldman Sachs Asset Management, were not publicly transparent, and provided no evidence of coherent company strategies on ESG issues. At the other end of the scale, fund managers such as F&C, Hermes, Insight and Morley were both transparent and clearly committed to engagement on Responsible Investment, and scored very highly on the survey as a result. This “top four” group is well-placed to take advantage of increasing awareness of and interest in RI among pension funds, retail investors and charities, as well as strengthening their position with existing clients. (FairPensions, 2007)

Throughout our research we found a common desire on both sides (SRI fund managers and companies) to improve communications on the business value of CR. SRI has a valuable contribution to make to the mainstream investment community, but poor communications are a barrier to acceptance by investors, analysts and finance directors. SRI fund managers, SRI analysts and CR managers in companies need to work together to improve communications. (Arthur D. Little, *Speaking the same language*, 2003)



Communicating
Business Value

Responsible investors understand that in the longer term, ESG issues can create or destroy value for the company. At an individual company level, issues such as child labour, discrimination, toxic spills or pollution can have devastating consequences for a company's value, leaving it vulnerable to litigation and operational and reputational losses. For example, according to the Financial Times, between March 2005 - when an explosion in the company's Texas City oil refinery killed 15 people - and June 2006, BP's “stock has underperformed the world oil and gas sector by 10.7 per cent”. It can also trigger a legislative backlash, such as the introduction of new gambling laws in the US, which led to huge losses for shareholders of online gambling companies. To remain informed about such potential problems, investors must look to sometimes unconventional information sources, such as union and NGO activity or regulatory trends. At the same time, environmental and social issues offer opportunities for companies to stay ahead of regulatory or consumer concerns: e.g. through emissions trading or developing clean technologies. The findings of our survey and others suggest that most fund managers do not appear to take proper account of such information. (FairPensions, 2007)

4.1.2. Futurism Discourse

Herein the emphasis is on the future of ESG issues, which is anticipated with tension, anxiety and mixed-feelings. On one hand, some elements of the discourse seem to suggest an optimistic future for ESG issues in investment decisions – for example this extract from FairPensions:

The overall improvement demonstrated by the 20 asset managers surveyed in both 2007 and 2008 is clearly encouraging. Many leading asset managers now appear to accept that integrating ESG issues into investment decision making is financially relevant and requires substantial effort and attention to be carried out effectively. This progress is stimulated by the intersecting demands of various stakeholders. Most notably, there has been a growing interest from pension fund clients in ESG issues, and the value to be derived from taking account of these factors. Initiatives including the UNPRI have catalysed asset owners to start setting out these factors explicitly in investment mandates. (FairPensions, 2008)

Optimism about the future

In the same report, FairPensions expresses some elements of disappointment and pessimism about the trends in Responsible Investment (RI) practices:

Despite the year on year improvement uncovered by our survey, the extent and quality of RI practices amongst asset managers does not yet inspire confidence overall. The spread of RI thinking into the fund management industry is slow. In particular there remains a narrow focus on governance issues rather than a broader engagement on environmental and social considerations. It is our contention that a failure to develop an RI approach brings a higher level of long term risk to an investment strategy. (FairPensions, 2008)

Pessimism about the future

Tied to this pessimistic outlook of the future is an occasional evocation of fear, as expressed by the UNEPFI and FairPensions, respectively:

Many private clients and their families have acquired wealth thanks to globalisation, often through businesses with operations in emerging markets. For a certain generation of highly- educated, well-travelled executives the 'ecosystem' view of the interactions between the globalised economy, the environment and society are inescapable (UNEPFI, Unlocking Value, 2007)

Evocation of fear

It is clear that many issues, beginning as social concerns with little short-term financial relevance, often grow to serious financial risks, especially

when social concerns translate into legislation on issues such as carbon emissions and gambling, or create legal and operational problems. (FairPensions, 2007)

Despite the expression of optimism and pessimism, there seems to be a view that it will take joint responsibilities across the broad range of actor groups to create a future for ESG issues in investment decisions:

*Joint responsibility
discourse and
solutions*

Investors and companies share responsibility for improving communications. Investors need to be smarter and more transparent in how they evaluate companies for SRI, and companies should be more assertive in promoting the value of their CR strategies and programmes to investors.... Investors and companies must work together to ensure that the definition is applicable to CR issues so that performance information and SRI analysis effort can focus on what really matters. [And] In the future, rating/research agencies will need to find new ways of meeting fund managers' needs for more intelligent engagement with companies. At the same time, the non FTSE 100 companies need to think again about engaging with SRI fund managers and be more pro-active about communicating material CR issues. (Arthur D. Little, 2003)

The number of fund managers signing up to joint investor initiatives is increasing: even during the period of this survey, Scottish Widows and Baillie Gifford became new signatories to the UNPRI. Of the fund managers in this survey, 8 of the 20 are signatories to the UNPRI, 6 are members of the Institutional Investors Group on Climate change (IIGCC), and only one fund manager (Hermes) has joined the Enhanced Analytics Initiative (EAI) (although a few other fund managers were able to demonstrate an equivalent level of spending on broker ESG research). Joint initiatives such as these are important, since they allow investors to spread the burdens of engagement and to combine their voting power and influence to increase pressure on companies and policymakers, as well as sharing best practice among themselves. The survey found a strong correlation between membership of the UNPRI and a high score on engagement, with all but one of the PRI signatories in the survey scoring at least 50% (the exception being Scottish Widows). It should be noted that several of the fund managers involved have only recently signed up to the UNPRI, which is a relatively new initiative. It might be expected that these fund managers will integrate the Principles into their investment process more fully over time. (FairPensions, 2007)

4.1.3. Regulation Discourse

The regulation discourse centres on the need for the government to be more involved in the scheme of things by providing better governance of the market as well as clarity for the different market actors, especially where and when the market itself is unable to address the challenges

facing the integration of ESG issues in investment decisions. This is demonstrated through the illustrative extracts below:

Clear regulation

Without clear regulations or effective auditing systems governing non-financial reporting, the credibility of voluntary corporate disclosures may be called into question (Boston College, 2008)

A comprehensive public disclosure of voting will allow a better understanding of the stewardship undertaken by asset managers of their investments. Disclosure of how ownership rights are exercised on behalf of clients and their beneficiaries is fundamental to achieving accountability through the investment chain. The low scores of many asset managers strengthen the argument for regulatory action to make voting disclosure mandatory, as enabled by the Companies Act 2006 (FairPensions, 2007)

Legislative solutions and government intervention in many capital markets are often seen as the only viable solutions to such issues. In light of the international nature of capital markets, and given the - subjective or objective - perception that the markets are overregulated, initiatives aimed at ESG legislation would likely arouse misgivings both here at home and abroad. ...Investors and analysts, whether SRI or mainstream, who demand "uneconomic" behavior from companies are in the wrong line of work! The capital market cannot and should not be used as a lever to abrogate the regulatory market framework. This would be an absurd expectation, and would hold out no prospect for success. Indeed, the state does bear responsibility for the market framework. (EFFAS)

...a number of regulatory and legislative reviews have helped create the impression that the City is better informed on the non-financial factors that help sustain the value of investments. The reviews that have helped bring environmental and social issues to the fore include corporate governance initiatives such as the Combined Code, the Government's Company Law Review, the Turnbull Report, the new Pensions Act regulation on socially responsible investment (SRI), and most recently the Myners report on institutional investment. [However] ...majority of the respondents were of the view that it is the Government, rather than the City, that would be the telling influence in pushing environmental and social issues up the business agenda. (Business in the Environment, 2003)

"Financial research was greatly aided by clear government positions with respect to environmental, social and corporate governance issues. In some cases analysts were not able to provide in-depth reports due to a lack of certainty regarding government policy." (UNEPFI, *The Materiality of Social, Environmental and Corporate Governance Issues to Equity Pricing - 11 Sector Studies by Brokerage House Analysts at the Request of the UNEP Finance Initiative Asset Management Working Group* 2004: 4)

5. Conclusion

This mini-survey of practitioners' reports on ESG is part of a broader research project on Valuing Business – which will draw from other data sources, including focus group sessions. Some of the challenges highlighted by financial market actors include lack of reliable and appropriate metrics/tools to adequately measure ESG factors, which makes comparability of firms along these lines difficult and tricky. Companies who are motivated to include ESG factors in the way they run their businesses, on the other hand, struggle with communicating this to the market in a way that enables them to gain competitive advantages from such activities. The emergent sustainability and corporate social responsibility reports, unfortunately, do not generate the level of confidence to persuade investors to take them seriously. This leaves both investors and companies in an information asymmetry dilemma. However, the different challenges highlighted above need not be seen in isolation. They are often interwoven and recursive. For example, it is possible to find a strong link between financial reputation, and trust, on one hand, and data quality and materiality, on the other.

Despite the dilemma and challenges presented by the highlighted factors, some members of the investment community, as well as, companies have become signatories to voluntary schemes aimed at developing good practices to minimise information asymmetry in this field. Examples of such schemes include the United Nations Principles of Responsible Investments (UNPRI), United Nations Environmental Programme Finance Initiative (UNEP FI), UN Global Compact and the IFC Equator Principles, amongst others. There are also emergent third party indices such as the Goldman Sachs Sustain Index, Dow Jones Sustainability Index, FTSE4Good Index, et cetera. These voluntary schemes and third party indices exert some practice pressures on firms that subscribe to them, at least to show/report that they are making some progress in integrating ESG factors in the way their businesses are run. In this regard, it often requires a new paradigm that recognises profit, not in isolation, but also only when it contributes to sustainability.

6. References

- Callon M, Muniesa F, (2005) Economic Markets as Calculative Collective Devices, *Organization Studies*, 26 (8), p.1229-1250.
- Benford, R. D. and Snow, D. A. (2000). Framing Processes and Social Movements: An Overview and Assessment, *Annual Review of Sociology*, 26: 611-639
- Berger, P. L., & Luckmann, T. (1966). *The social construction of reality: A treatise in the sociology of knowledge*. Hammondsworth: Penguin Books.
- Goffman, E. (1974). *Frame Analysis*, Cambridge: Harvard University Press
- Horn, R. (1983). An overview of trialectics within applications to psychology and public policy. In: R. Horn (Ed.), *Trialectics: Toward a practical logic of unity*: 1-39. Lexington, MA: Information Resources.
- Parker, I. (1992). *Discourse dynamics: critical analysis for social and individual psychology*. London: Routledge
- Phillips, N., & Hardy, C. (2002). *Discourse analysis: investigating processes of social construction*. Thousand Oaks, CA: Sage
- Phillips, N., Lawrence, T. B., & Hardy, C. (2004). Discourse and institutions. *Academy of Management Review*, 29: 635-652
- Schmidt, V. A. and Radaelli, C. M. (2004). Policy change and discourse in europe: conceptual and methodological issues. *West European Politics*, 27(2): 183-210
- Snow, D. A., Rochford, E. B., Worden, S. K. and Benford, R. D. (1986). Frame alignment processes, micromobilization, and movement participation. *American Sociological Review*, 51: 464-481
- Taylor, J. R., Cooren, F., Giroux, N., and Robichaud, D. (1996). The communicational basis of organization: between the conversation and the text. *Communication Theory*, 6: 1-39

Appendix 1: Meta-analysis Survey Instrument

The Doughty Centre for Corporate Responsibility at Cranfield University, on behalf of the European Academy of Business in Society (EABIS) and the European CSR Alliance, is conducting a research study on Valuing Business (focussing mainly on non-financial – or extra-financial – performance measures that influence investment decisions). A key concern of this research project is to understand if the link between environmental, social and governance issues and long-term business performance is understood and used.

A critical step in the project is to understand what has been done, so far, in this area by other initiatives. In this regard, we have catalogued some reports of initiatives in this field since 2000. We will appreciate it if you could help us in suggesting how relevant, or not, these selected reports are to non-financial (extra-financial) performance measures. The list of these reports is presented below. Kindly tick accordingly.

We anticipate that the exercise will not take more than 10 minutes of your time and would be happy to share the findings of our study with you.

Meta-analysis list of documents

	Document	Source	Year	Pages	Very Relevant	Relevant	Slightly relevant	Not Relevant	I don't know
1.	The Drivers of Financial Reputation – Investors' views on the meaning and importance of financial reputation	Ernst & Young	2007	16					
2.	Cleantech Matters – Financing, Partnerships, Policy and Growth: Insights from the Cleantech Symposium	Ernst & Young	2008	44					
3.	Climate changes your business	KPMG	2008	76					
4.	Corporate governance	Ernst & Young	2005	5					
5.	Board members on risk. Leveraging frameworks for the future	Ernst & Young	2006	28					
6.	Investors on risk. The need for transparency	Ernst & Young	2006	20					
7.	Sustainability reporting. A guide	KPMG	2008	36					
8.	International survey of corporate responsibility reporting	KPMG	2005	55					
9.	Count me in: The readers' take on sustainability reporting	KPMG/SustainAbility	2008	44					
10.	Green for go: supply chain sustainability	Ernst & Young	2008	12					
11.	Climate change business leaders survey II	KPMG	2008	6					
12.	In the dark. What boards and executives don't know about the health of their businesses	Deloitte	2004	56					
13.	Managing risk: stakeholder perspectives	Ernst & Young	2006	32					
14.	Companies on risk: the benefits of alignment	Ernst & Young	2006	28					

	Document	Source	Year	Pages	Very Relevant	Relevant	Slightly relevant	Not Relevant	I don't know
15.	Financial reporting: KPMG's survey of leading investors	Ernst & Young	2007	11					
16.	Shaping the new rules of competition: UN Global Compact participant mirror	McKinsey & Co	2007	36					
17.	Best practice in risk management: a function comes of age	The Economist	2007	24					
18.	A measure of progress: guidelines on measuring environmental performance	Business in the Community	2001	63					
19.	Investing in the future: city attitudes to environmental and social issues	Business in the Community	2001	47					
20.	Winning with integrity	Business in the Community	2000	20					
21.	Indicators that count: social and environmental indicators – a model for reporting impact	Business in the Community	2003	12					
22.	Measuring eco-efficiency: a guide to reporting company performance	World Business Council for Sustainable Development	2000	38					
23.	GS Sustain	Goldman Sachs	2007	179					
24.	Introducing GS Sustain	Goldman Sachs	2007	22					
25.	Affordable healthcare; generic drugs raise quality of life	Merrill Lynch	2008	33					
26.	What really counts – the materiality of extra-financial factors	WestLB	2007	42					
27.	Key performance indicators for environmental, social and governance issues	DVFA	2008	43					
28.	Use of extra-financial information by research analysts and investment managers	European Centre for Corporate Engagement	2007	39					

	Document	Source	Year	Pages	Very Relevant	Relevant	Slightly relevant	Not Relevant	I don't know
29.	Enhanced analytics for a new generation of investor	USS	2006	43					
30.	Valuing ESG issues – a survey of investors	EIRIS	2007	6					
31.	PRI Report on Progress	UNPRI	2008	52					
32.	Building responsible property portfolio	UNPRI/UNEPFI		16					
33.	Demystifying responsible investment performance – A review of key academic and broker research on ESG factors	UNEPFI/Mercer	2007	82					
34.	A legal framework for the integration of environment, social and governance issues into institutional investment	UNPFI	2005	154					
35.	PRI Progress Report	UNPRI	2007	40					
36.	Responsible investment in focus: how leading public pension funds are meeting the challenge	UNPFI	2007	85					
37.	Sustainability management and reporting: benefits for financial institutions in developing and emerging economies	UNPFI	2006	32					
38.	Unlocking value: the scope for environmental, social and governance issues in private banking	UNPFI	2007	26					
39.	“Who cares wins”: One year on – A review of the integration of environmental, social and governance value drivers in asset management, financial research and investment processes	IFC	2006	27					
40.	Who cares wins – connecting financial markets to a changing	The Global Compact	2005	58					

	Document	Source	Year	Pages	Very Relevant	Relevant	Slightly relevant	Not Relevant	I don't know
	world								
41.	The working capital report	UNPFI	2007	56					
42.	Perspectives – Generation lost: young financial analysts and environmental, social and governance issues	UNPFI	2004	6					
43.	Beyond Risk	IFC		51					
44.	CEO Briefing – the materiality of social, environmental and corporate governance issues to equity pricing	UNPFI		6					
45.	Banking on sustainability – financing environmental and social opportunities in emerging markets	IFC	2007	92					
46.	Integrating sustainability value into the capital markets – workshop outcomes	UNEPFI/WBCSD	2008	3					
47.	The promise of private equity – environment, society, and corporate governance – new criteria for success in private equity investments	IFC	2008	45					
48.	Show me the money: linking environmental, social and governance issues to company value	UNEPFI	2006	60					
49.	The state of responsible investment in South Africa	UNEPFI		69					
50.	Communicating ESG value drivers at the company-investor interface – who cares wins annual event 2006	IFC	2006	39					
51.	New frontiers in emerging markets investments – who cares wins event	IFC	2007	31					

	Document	Source	Year	Pages	Very Relevant	Relevant	Slightly relevant	Not Relevant	I don't know
52.	Investing for long term value – a state of the art assessment	IFC	2005	32					
53.	Valuation pilot workshop outcomes	UNEPFI/WBCSD	2008	6					
54.	The materiality of social, environmental and corporate governance issues to equity pricing	UNEPFI	2004	54					
55.	Sustainability reporting guidelines	GRI	2006	45					
56.	Breaking the short-term cycle – discussion and recommendations on how corporate leaders, asset managers, investors, and analysts can refocus on long-term value	CFA	2006	24					
57.	Pursuit of alpha: the current use of ESG in investment decision-making	GRI	2007	3					
58.	Mainstreaming responsible investment	World Economic Forum	2005	62					
59.	Carbon counts – the trucost carbon footprint ranking of UK investment funds	Trucost	2007	24					
60.	Carbon disclosure project report	Carbon disclosure project	2007	173					
61.	Carbon disclosure project report	Carbon disclosure project	2005	154					

62.	Environmental disclosures – the second major review of environmental reporting in the Annual Reports & Accounts of the FTSE All-Share	Environment Agency	2007	62					
63.	Carbon disclosure project report	Carbon disclosure project	2006	147					
64.	Carbon disclosure project report	Carbon disclosure project	2003	76					
65.	Carbon disclosure project report	Carbon disclosure project	2004	108					
66.	Responsible trustee best practice guide	Fairpension		4					
67.	The use of non-financial information: what do retail investors want?	Boston College	2007	16					
68.	The use of non-financial information: what do investment professionals want?	Boston College	2007	16					
69.	Fund management transparency and engagement on environmental, social and governance issues	Fairpensions	2007	15					
70.	The pressure to measure – the new ways to measure intangibles	Business intelligence	2003	54					
71.	Speaking the same language – improving communications between companies and investors on corporate responsibility	Arthur D. Little	2003	16					
72.	UK pension scheme transparency survey on environmental, social and governance issues	Fairpensions	2007	55					

73.	Long-term value creation: guiding principles for corporations and investors	The Aspen Institute	2007	5					
74.	Corporate reporting of social, environmental, and governance information: what investors want	Boston College	2008	12					
75.	Reporting framework	PWC		3					
76.	Engaging the mainstream	SustainAbility	2008	19					
77.	Mainstreaming social responsible investment (SRI): a role for government?	University of Technology Sydney	2005	25					
78.	Accounting for sustainability	Prince of Wales Trust	2008	51					
79.	Managing Responsible Business	CiMA	2008	30					

Appendix 2: Final list of documents

S/N	Document	Source	Year	Pages	Group
1.	The use of non-financial information: what do retail investors want?	Boston College Center for Corporate Citizenship	2007	16	Academic CR centre
2.	The use of non-financial information: what do investment professionals want?	Boston College Center for Corporate Citizenship	2007	16	Academic CR centre
3.	Corporate reporting of social, environmental, and governance information: what investors want	Boston College Center for Corporate Citizenship	2008	12	Academic CR centre
4.	The Drivers of Financial Reputation – Investors' views on the meaning and importance of financial reputation	Ernst & Young	2007	16	Accounting firm
5.	Cleantech Matters – Financing, Partnerships, Policy and Growth: Insights from the Cleantech Symposium	Ernst & Young	2008	44	Accounting firm
6.	Climate changes your business	KPMG	2008	76	Accounting firm
7.	Corporate governance	Ernst & Young	2005	5	Accounting firm
8.	Board members on risk. Leveraging frameworks for the future	Ernst & Young	2006	28	Accounting firm
9.	Investors on risk. The need for transparency	Ernst & Young	2006	20	Accounting firm
10.	Sustainability reporting. A guide	KPMG	2008	36	Accounting firm
11.	International survey of corporate responsibility reporting	KPMG	2005	55	Accounting firm
12.	Green for go: supply chain sustainability	Ernst & Young	2008	12	Accounting firm

13.	Climate change business leaders survey II	KPMG	2008	6	Accounting firm
14.	In the dark. What boards and executives don't know about the health of their businesses	Deloitte	2004	56	Accounting firm
15.	Managing risk: stakeholder perspectives	Ernst & Young	2006	32	Accounting firm
16.	Companies on risk: the benefits of alignment	Ernst & Young	2006	28	Accounting firm
17.	Financial reporting: KPMG's survey of leading investors	KPMG	2007	11	Accounting firm
18.	Reporting framework	PWC	2006	3	Accounting firm
19.	Count me in: The readers' take on sustainability reporting	KPMG/SustainAbility	2008	44	Accounting firm/Think Tank
20.	Accounting for sustainability	Prince of Wales Trust	2008	51	Ad hoc multi-stakeholder initiative
21.	Mainstreaming responsible investment	World Economic Forum	2005	62	Business –society Coalition
22.	The Pharmaceutical Sector – A long term value outlook	Sustainability	2004	38	Business-investor forum co-ordinated by Sustainability consultancy & Think tank
23.	Pharma Futures – Prescriptions	Sustainability	2007	44	Business-investor forum co-ordinated by Sustainability consultancy & Think tank
24.	A measure of progress: guidelines on measuring environmental performance	Business in the Community	2001	63	Business-led CR Coalition
25.	Investing in the future: city attitudes to environmental and social issues	Business in the Community	2001	47	Business-led CR Coalition
26.	Winning with integrity	Business in the Community	2000	20	Business-led CR Coalition

27.	Indicators that count: social and environmental indicators – a model for reporting impact	Business in the Community	2003	12	Business-led CR Coalition
28.	Measuring eco-efficiency: a guide to reporting company performance	World Business Council for Sustainable Development	2000	38	Business-led CR Coalition
29.	Carbon disclosure project report	Carbon Disclosure Project	2007	173	Campaigning NGO
30.	Carbon disclosure project report	Carbon Disclosure Project	2005	154	Campaigning NGO
31.	Carbon disclosure project report	Carbon Disclosure Project	2006	147	Campaigning NGO
32.	Carbon disclosure project report	Carbon Disclosure Project	2003	76	Campaigning NGO
33.	Carbon disclosure project report	Carbon Disclosure Project	2004	108	Campaigning NGO
34.	Responsible trustee best practice guide	Fairpension	2005	4	Campaigning NGO
35.	Fund management transparency and engagement on environmental, social and governance issues	Fairpensions	2007	15	Campaigning NGO
36.	UK pension scheme transparency survey on environmental, social and governance issues	Fairpensions	2007	55	Campaigning NGO
37.	The pressure to measure – the new ways to measure intangibles	Business intelligence	2003	54	company providing business data
38.	Speaking the same language – improving communications between companies and investors on corporate responsibility	Arthur D. Little	2003	16	consultancy
39.	Shaping the new rules of competition: UN Global Compact participant mirror	McKinsey & Co	2007	36	Consulting firm
40.	The sustainability year book 2009	SAM	2009		Fund manager

41.	Environmental disclosures – the second major review of environmental reporting in the Annual Reports & Accounts of the FTSE All-Share	Environment Agency	2007	62	Government
42.	GS Sustain	Goldman Sachs	2007	179	Investment Bank
43.	Introducing GS Sustain	Goldman Sachs	2007	22	Investment Bank
44.	Affordable healthcare; generic drugs raise quality of life	Merrill Lynch	2008	33	Investment Bank
45.	What really counts – the materiality of extra-financial factors	WestLB	2007	42	Investment Bank
46.	Breaking the short-term cycle – discussion and recommendations on how corporate leaders, asset managers, investors, and analysts can refocus on long-term value	CFA	2006	24	Investment Professionals Association
47.	Key performance indicators for environmental, social and governance issues	DVFA	2008	43	Investor Association
48.	Best practice in risk management: a function comes of age	Economist Intelligence Unit	2007	24	Media
49.	PRI Report on Progress	UNPRI	2008	52	Multinational Institution
50.	A legal framework for the integration of environment, social and governance issues into institutional investment	UNPFI	2005	154	Multinational Institution
51.	PRI Progress Report	UNPRI	2007	40	Multinational Institution
52.	Responsible investment in focus: how leading public pension funds are meeting the challenge	UNPFI	2007	85	Multinational Institution
53.	Sustainability management and reporting: benefits for financial institutions in developing and emerging economies	UNPFI	2006	32	Multinational institution
54.	Unlocking value: the scope for environmental, social and governance issues in private banking	UNPFI	2007	26	Multinational Institution

55.	"Who cares wins": One year on – A review of the integration of environmental, social and governance value drivers in asset management, financial research and investment processes	IFC	2006	27	Multinational Institution
56.	The working capital report	UNPFI	2007	56	Multinational Institution
57.	Perspectives – Generation lost: young financial analysts and environmental, social and governance issues	UNPFI	2004	6	Multinational Institution
58.	Beyond Risk	IFC	2003	51	Multinational Institution
59.	CEO Briefing – the materiality of social, environmental and corporate governance issues to equity pricing	UNPFI	2005	6	Multinational institution
60.	Banking on sustainability – financing environmental and social opportunities in emerging markets	IFC	2007	92	Multinational Institution
61.	The promise of private equity – environment, society, and corporate governance – new criteria for success in private equity investments	IFC	2008	45	Multinational institution
62.	Show me the money: linking environmental, social and governance issues to company value	UNEPFI	2006	60	Multinational institution
63.	The state of responsible investment in South Africa	UNEPFI		69	Multinational institution
64.	New frontiers in emerging markets investments – who cares wins event	IFC	2007	31	Multinational institution
65.	Investing for long term value – a state of the art assessment	IFC	2005	32	Multinational institution
66.	The materiality of social, environmental and corporate governance issues to equity pricing	UNEPFI	2004	54	Multinational Institution

67.	Integrating sustainability value into the capital markets – workshop outcomes	UNEPFI/WBCSD	2008	3	Multinational Institution/ Business-led CR Coalition
68.	Valuation pilot workshop outcomes	UNEPFI/WBCSD	2008	6	Multinational institution/ Business-led CR Coalition
69.	Demystifying responsible investment performance – A review of key academic and broker research on ESG factors	UNEPFI/Mercer	2007	82	Multinational Institution/ HR & related financial advice consultancy
70.	Building responsible property portfolio	UNPRI/UNEPFI	2008	16	Multinational Institutions
71.	Communicating ESG value drivers at the company-investor interface – who cares wins annual event 2006	IFC	2006	39	Multinational institutions
72.	Who cares wins – connecting financial markets to a changing world	The Global Compact	2005	58	Multinational, multi-stakeholder CR coalition
73.	Sustainability reporting guidelines	GRI	2006	45	Multi-stakeholder, multinational corporate reporting coalition
74.	Pursuit of alpha: the current use of ESG in investment decision-making	GRI	2007	3	Multi-stakeholder, multinational corporate reporting coalition
75.	Enhanced analytics for a new generation of investor	USS	2006	43	Pension Fund
76.	Managing Responsible Business	CiMA	2008	30	Professional body of management accountants

77.	Use of extra-financial information by research analysts and investment managers	European Centre for Corporate Engagement	2007	39	Research Network
78.	Valuing ESG issues – a survey of investors	EIRIS	2007	6	SRI Researcher
79.	Carbon counts – the trucost carbon footprint ranking of UK investment funds	Trucost	2007	24	Sustainability Consultancy
80.	Engaging the mainstream	SustainAbility	2008	19	Sustainability consultancy & Think tank
81.	Long-term value creation: guiding principles for corporations and investors	The Aspen Institute for Business and Society et al	2007	5	Think tank / ngo promoting responsible business
82.	Mainstreaming social responsible investment (SRI): a role for government?	University of Technology Sydney	2005	25	University

Studies identified since the meta-analysis was completed and therefore not covered

- 83. Pharma Futures III – Sustainability 2009
- 84. McKinsey 2009
- 85. Accenture for WBCSD 2009

Appendix 3: Complete list of analysed reports

S/N	Document	Source	Year	Pages	Group
1.	Speaking the same language – improving communications between companies and investors on corporate responsibility	Arthur D. Little	2003	16	Consultancy
2.	Survey Report	AXA Investment Managers	2008		Fund Managers
3.	The use of non-financial information: what do retail investors want?	Boston College Center for Corporate Citizenship	2007	16	Academic CR centre
4.	The use of non-financial information: what do investment professionals want?	Boston College Center for Corporate Citizenship	2007	16	Academic CR centre
5.	Corporate reporting of social, environmental, and governance information: what investors want	Boston College Center for Corporate Citizenship	2008	12	Academic CR centre
6.	Investing in the future: city attitudes to environmental and social issues	Business in the Community	2001	47	Business-led CR Coalition
7.	Environmental, Social and Governance: Moving to Mainstream Investing?	Business Social Responsibility (BSR)	2008		
8.	Breaking the short-term cycle – discussion and recommendations on how corporate leaders, asset managers, investors, and analysts can refocus on long-term value	CFA	2006	24	Investment Professionals Association
9.	Key performance indicators for environmental, social and governance issues	EFFAS/DVFA	2008	43	Investor Association

10.	Valuing ESG issues – a survey of investors	EIRIS	2007	6	SRI Researcher
11.	The Drivers of Financial Reputation – Investors' views on the meaning and importance of financial reputation	Ernst & Young	2007	16	Accounting firm
12.	Responsible trustee best practice guide	Fairpension	2005	4	Campaigning NGO
13.	Fund management transparency and engagement on environmental, social and governance issues	Fairpensions	2007	15	Campaigning NGO
14.	UK pension scheme transparency survey on environmental, social and governance issues	Fairpensions	2007	55	Campaigning NGO
15.	GS Sustain	Goldman Sachs	2007	179	Investment Bank
16.	Introducing GS Sustain	Goldman Sachs	2007	22	Investment Bank
17.	Financial reporting: KPMG's survey of leading investors	KPMG	2007	11	Accounting firm
18.	Count me in: The readers' take on sustainability reporting	KPMG/SustainAbility	2008	44	Accounting firm/Think Tank
19.	Knowledge Forum on Valuing Business Sustainability	Research Network for Business Sustainability	2008		
20.	The Materiality of Social, Environmental and Corporate Governance Issues to Equity Pricing - 11 Sector Studies by Brokerage House Analysts at the Request of the UNEP Finance Initiative Asset Management Working Group	UNEPFI	2004	54	Multinational Institution
21.	Unlocking value: the scope for environmental, social and governance issues in private banking	UNPFI	2007	26	Multinational Institution
22.	What really counts – the materiality of extra-financial factors	WestLB	2007	42	Investment Bank

Appendix 4: Survey Distribution List

	Names	Institution
1.	<i>Alex van der Velden</i>	<i>PGGM Investments</i>
2.	Anthony Hopwood	Saïd Business School, Oxford University, UK
3.	Anthony Ling	Goldman Sachs
4.	Craig Mackenzie	University of Edinburgh, UK
5.	Dan Sidy	Delsus
6.	David Wood	Boston College
7.	James Gifford	UNPRI
8.	Jan Noterdaeme	CSR Europe
9.	Jeremy M Oppenheim	Mckinsey
10.	Jerome Tagger	UNPRI
11.	John Swannick	LloydsTSB
12.	Judy Samuelson	Aspen Institute
13.	Jyrki I. Koskelo	IFC
14.	Kai Remco FISCHER	UNEPFI
15.	Katherine Sharp	BITC
16.	Lucas Noterdaeme	Fortis
17.	Marc Fox	Goldman Sachs
18.	Monika M. Weber-Fahr	IFC
19.	Nigel Haskins	ICAEW
20.	Paolo Nazzaro	Telecomitalia
21.	Pat Cleverly	Tomorrow's Company
22.	Paul Moody	Morley Fund Management
23.	Penny Shepherd	UKSIF
24.	Peter Lacy	Accenture
25.	Peter Montagnon	Association of British Insurers
26.	Rachel Kyte	IFC
27.	Rory Sullivan	Insight Investment
28.	Ruth Bender	Cranfield
29.	Sarah Forrest	Goldman Sachs
30.	Sean Gilbert	Global Reporting
31.	Simon Thomas	Trucost
32.	Stephan Feilhauer	Goldman Sachs
33.	Tima Bansal	Richard Ivey School of Business, University of Western Ontario, Canada
34.	Tom Ewart	Richard Ivey School of Business, University of Western Ontario, Canada
35.	Tom Rotherham	Radley Yeldar
36.	Zoe Knight	Merrill Lynch